Financial Performance Analysis of IPO's (Selected Companies)-National Stock Exchange Market

OPEN ACCESS

Volume: 7

Issue: 1

Month: January

Year: 2019

ISSN: 2320-4168

Received: 21.12.2018

Accepted: 05.01.2019

Published: 31.01.2019

Citation:
Kamaraj, K & Mahalakshmi, V. "Financial Performance Analysis of IPO's (Selected Companies)-National Stock Exchange Market." *Shanlax International Journal of Commerce*, vol. 7, no. 1, 2019, pp. 12–18.

DOI:
https://doi.org/10.5281/zenodo.2550047

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Abstract
Indian Securities Market is governed by SEBI and RBI which protect the investors and in the capital markets. Now the capital market is augmented with technologically sound trading platforms which increased the investors in recent years and simplified the process. India is holding a reasonable share of the global economy and the capital market is obligatory in the pecuniary system of the country. In this research work, the researcher aimed to estimate the outperformance of selected 30 Initial Public Offerings (IPOs) which were offered between Jan 2014 and Mar 2016 and got listed on National Stock Exchange. Secondary data was collected from the official website of the National stock exchange. Stock Return, Standard Deviation, Correlation, Simple Regression, Co-Variance, Beta was calculated using Microsoft Excel. The result indicates that all the securities returns have performed positively with respect to the indices return.
Keywords: Captial Market, Initial Public Offering, SEBI, RBI, Indian Capital Market.

Introduction

The capital market is a vital constituent of the money related framework. A capital market is one of the critical parts of each budgetary market. It is a business opportunity for the long haul reserves both debt and equity – and reserves raised inside and outside the nation. The capital market helps financial development by assembling the funds of the monetary divisions. Capital Market consists of Primary and Secondary Market. This study is focused on the Initial public offering.

Review of Literature

Singh and Sehgal (2008) examined the probable determinants of underpricing and the long-run performance of 438 (Initial public offerings) listed on the BSE between June 1992-March 2001. **Alok Pande and R. Vaidyanathan(2007),** recommended that the demand generated for an issue during book building and the listing delay brightly impact the first day underpricing while the outcome of money spent on the marketing of the IPO is immaterial. **Gadesurendar and Dr S. Kamaleshwari Rao (2011)** affirmed that Companies ascend in the primary market by way of IPO's, rights issue. An Initial Public offerings is one through which an unlisted company makes either a New issue of securities of an offer for sale of its existing securities or both for the first time to be public. **S.S.S.KUMAR (2010)** interpreted that, the performance issued through the book building process in India over the period 19 99-2006.

The sample encompasses of 156 firms that upon listening to the IPO's on an average offered positive returns up till twenty four months but afterward they underperformed in the market. **Ritter and Welch (2002)** focused on3 areas of research on Initial Public Offerings. The first one is cause for going public, the next one is the pricing and allotment of shares, and the third one is long-run performance and found that those market conditions are the most significant aspect in the pronouncement to go public. The stage of the firm in its life cycle seemed to be the second important factor. **Pandey (2005)** examined the difference in under pricing Eighty of Initial Public Offerings caused by a difference in allocation mechanism. On a sample of Eighty four Indian Initial Public Offerings (Twenty- book-build and Sixty four) fixed price from the phase of 1999-2000, he found the early returns were privileged on predetermined offer pricing. It may be illustrious that a predetermined or a fixed price method was used for allocating of Initial Public Offerings till 1999 when book building was permitted. Now both book building and fixed offer price method are accessible. This provides the opportunity to compare both mechanisms under similar market conditions. **Guntur Anjana Raju and Rudresh R. Kunde (2009)** found that a public company issuing Initial Public Offerings have seen striking listing gains on their first day of trading. Of the One hundred and Ten Initial Public Offerings glided amid January 2006 -April 2007, One Hundred and Four evidenced listing gains. In Seventy of them, the listing day gain exceeded twenty percent of the issue price. Initial Public Offerings(IPO's) had given fine returns for the small term as well as the long-term and could be measured to be a good outlay avenue for wealth conception. In 2007, as well, taking lead of the potency in the secondary market, many high profile companies lined up to raise money from the market. The usual returns provided on listing during the period of January 2005 to March 2007, was thirty three percent, with these returns being comprehended immediately, within roughly forty days of the issue being floated. These striking returns united with the short returns realization period are making Initial Public Offerings a worthwhile investment option. **G Sabarínathan (2010)** found some appealing changes in the distinctiveness of the companies that made Initial Public Offerings during the period of 1993-1994 to 2008-2009. The changes in uniqueness are in terms of the size of the issue, size of the issuer as calculated by the post issue paid capital, the stage of evolution of the issuer, the pricing of the issue, fraction of shareholding of the issuer that has been offered for public ownership, the business/trade that the issuer is engaged in and the exchanges on which the shares were listed.

Research Methodology

To analyze the initial returns provided by Initial Public Offerings (IPO's) over and above the benchmark index S & P CNX Nifty after the issue on the listing day as well as in the following years using event study methodology and to identify the different factors that can explains the return behavior of Initial Public Offerings in Indian Stock Market.

Research Objectives

The main objective of the study is to evaluate the performance of IPOs in India. Keeping the above in consideration, the present study has been conducted with the following objectives

1. To find out the performance of Indian IPOs for short period, i.e. from the date of offer to the public to the date of their first day of trading after listing on stock exchange.
2. To measure the long-term performance of Indian IPOs including and excluding initial returns.
3. To analyze whether the returns are more in short term or long term for a better conclusion.

Sampling Frame

The study includes all the companies which offer public issue as the Initial Public Offerings (IPO's) during the period Jan 2014 up to Mar 2016 through National stock exchange (NSE).

The research study includes the following variables:

1. Issue price
2. List price
3. Age:
4. Subscription:
5. Issue Size

6. Listing Day Return:
7. Long terms return
8. Market (Benchmark Index) Return:
9. Market Adjusted Return:
10. Long-Term Performance:
11. Returns on Application Money

Source of Secondary Data

This study is based on the data of 30 Initial Public Offerings (IPOs) which were offered between Jan 2014 and Mar 2016 and got listed on National Stock Exchange. The data is secondary in nature. The data of these 30 IPOs is collected from the official website of National stock exchange (www.nseindia.com). The website of www.chittorgah.com (Indian IPO investment portal) is used to get details of IPOs. The daily data of market index i.e. S & P CNX Nifty is collected from NSE website.

Table Companies Selected For The Study

1) Monte Carlo Fashions Ltd	2) Dr.Lal Pathlabs Limited	3)Sadbhav Infrastructure Project Limited
4) Wonderla Holidays Ltd	5)Manpasand Beverages Limited	6)Shkelkar & Company Ltd
7)Sharda Cropchem Ltd	8)Mep Infrastructure Developers Ltd	9) Shree Pushkar Chemicals & Fertilisers Ltd
10)Shemaroo Entertainment Ltd	11)Navkar Corporation	12)Syngene International Ltd
13)Snowman Logistics Ltd	14)Narayana Hrudyalaya	15)UFO Moviez
16)ADLABS	17)Ortel Communications Ltd	18)VRL Group
19)Alkem Laboratories	20)Pennar Industries	21)Healthcare Global Enterprises Ltd
22)Cafe Coffee Day	23)PNC Infratech Limited	24)Precision Camshaft Ltd
25)INDIGO	26)Power Mech Projects Limite	27)Quick Heal Technologies Ltd:
28)Inox Wind	29)Prabhat Dairy Ltd	30)Teamlease

Financial Tools Used

Listing Day Returns

The return on a listing day (Ri) is calculated by using the formula:

Ri = (P1 –P0) /P0 * 100

where P1 = Price of share on a listing day and in the same date of following
months

P0 = Issue price

Subsequent returns

Rt = (Pt – Pt-1)/Pt-1 * 100

Rt = return on a particular day

Pt = closing price on a particular day

Pt-1 = closing price on the previous day

The return so calculated can be called as a raw return since such a return would be valid in a perfect market.

- Standard Deviation
- Correlation
- Co-variance:
- Beta

Limitations of the Study

- The area of study is limited to the stocks of 30 companies from the initial public offering issued in the NSE.
- The study includes data of the IPO's of 2 years from the listing of the stocks only.

Data Analysis & Interpretation

Correlation between Subscription, Return on the listing day & abnormal return.

A high and statistically significant correlation is found between the subscription, the return on a listing day and the abnormal return. These significant correlations indicate that there exists a high correlation between the market demand and the listing day return as well as the abnormal returns. The issues, which have a good market reputation, have a very high probability to provide handsome returns on a listing day as well as to outperform the market.

Table Correlation Between Subscription, Returns & Abnormal Return

Correlation between	Pearson Correlation	Sig. (2-tailed)
Return on listing day and Subscription in times	.493	.006
Abnormal Return and Subscription in times	.476	.006
Return on listing day and Abnormal Return	0.70	.008

The obtained Pearson correlation value is 0.493 for the variables Return of listing day and subscription in times. The Significance value is 0.006 which is lesser than the expected value of 0.05. Between Abnormal Return and Subscription in times the obtained pearson value is 0.476 which is significant and the significant value observed is 0.006 which is lesser than the expected value of 0.05. The obtained correlation value of Return of listing day and abnormal return is 0.700 which is most significant. (See table 2)

Subscription and the Returns

Table Subscription and the returns

Subscription in times	Frequency	Return on Listing Day
Up to 5 times	14	1.67
Between 5 -10 times	4	14.34
Between 10-20 times	2	-3.12
More than 20 times	10	27.01

The results indicate that short-term returns of the IPOs on a listing day are significantly related with the level of subscription. As the subscription in general increases, the short-term returns also increases. The results also indicate that the returns over and above the market are also highest in case of the highest subscription category (more than 20 times).

Factors influencing the short-term return of IPOs on a listing day

Null Hypothesis: There is no significant relationship between the initial returns of the IPO on a listing day and the micro issues (ownership structure, age, subscription, market capitalisation and issue size) of the company.

The above hypothesis is tested by applying the regression model. Considering the listing day return as a dependent variable and assuming that it could be influenced by issue size, time delay of the IPO, market demand as indicated by the times the IPO is subscribed, promoters holding after the issue, market return during the period and the age of the firm, multiple regression model is applied. Before applying the multiple regression models, the simple regression model is applied by considering the different independent variables individually. The results of the individual regression model are shown in table 4.18.

Table Factors influencing the short-term return of IPOs on a listing day

Dependent Variable	Independent Variable	Alpha and Beta coefficient of Independent variable	t-value of coefficients	F-value of the model	R-Square of the model	Predictability
Return on a listing day	Age of the company	4.683 .317	.664 1.191	1.418	.048	Un-Predictable
	subscription	2.081 .504	.425 3.000	9.003	.845	Predictable
	Issue size	10.447 .051	2.017 .331	.110	.004	Un-Predictable
	Market Return	11.348 1.474	2.613 .373	.139	.643	Predictable

The results of the simple regression model indicate that the market demand, as well as the market returns (represents the scenario in the market), influences significantly the short term returns provided by the IPO on a listing day. The subscription represents the response of the market to the issue. Higher is the response better is the subscription, which leads to better short-term returns. The market returns indicate the scenarios in the market. If the market is rising, in general, the price of the majority of the stocks rises. The impact can also be seen in the positive short-term returns provided by the IPOs. Although no significant impact is found in case of age of the company, issue size.

Multiple regression model with the LISTING return as a dependent variable

Taking all the variables at the same time in the multiple regression models, the model can be expressed as:

ROLD=a +b1* Age+b2*Sub+b3*I Size+b4* MR +e

Where,

ROLD = Return on a listing day.

Age = the age of the company at the time when the issue comes in the market.

Sub = Subscription of the issue

I Size = Issue Size in crore

MR = Market Return during the period when the IPO lists on the stock exchange.

Table Multiple Regression –Model Summary

Dependent variable	Independent variable	Standardized Beta	F-Statistic of the model	R Square	Significance
Return on the listing day	Subscription	.479	20.325	.785	Significant
	Age	.193			
	Issue size	.057			
	market return	1.773			

The standardized beta's of the different independent variables are used to see the comparative impact on the dependent variable. The results of the multiple regressions indicated that the returns of the IPO on a listing day are highly influenced by the subscription and the behaviour of the Index during the same period. Also, it is found that the returns of the IPO are not significantly influenced by age and issue size. It can be concluded from the results that in the Indian stock market the performance of IPO is highly dependent on the psychological aspects as compared to logical measures.

Conclusion

For The Ipo Issued In The Year 2014

One Year From The Issue

- The securities such as Monte Carlo alone get the value of negative return & risk. And all other securities have positive return & risk.
- The securities present in the IPO shows that only one stock has less than 1 which means a beta of greater than 1 indicates that the security's price is more volatile than the market. And all other securities are less

volatile, which means a beta of less than 1 indicates that the security's price is less volatile than the market.
- In the outperformance chart, all the companies have performed well in the market
- All the securities returns have performed positively with respect to the indices return.

Two Years From The Issue
- The securities such as Monte Carlo and snowman alone get the value of negative return & risk. And all other securities have positive return & risk.
- Three securities such as Sharda, shemaroo, and snowman have beta values more than 1 and the remaining two have the value less than 1.
- Here 3 companies outperformed the market and the two monte, Carlo, snowman did poorly
- All the stocks have performed positively with respect to the indices return.

For the IPO Issued in The Year 2015
One Year From The Issue
- The securities such as ADLABS, COFFEE DAY, INOX WIND, MEP, POWER MECH, PRABATH, UFO MOVIES have negative return & risk. and all other securities have positive return & risk.
- In this area also there are only 11 stocks have less volatility and the remaining 10 companies have high volatility.
- In here the 11 of the 21 companies have outperformed the market and the remaining did not
- The securities such as shreepushkar alone performed negatively to the index return. And all other securities returns have performed positively with respect to the indices return.

Two Years From the Issue
- The securities such as ADLABS, INOX WIND, LALAPATH, NARAYANAN HRIDULAYA, ORTEL, PENNAR, PNC INFRA TECH LTD, SADBHAV, SH KELKAR, SYNGENE have negative return & risk. and all other securities have positive return & risk.
- More than 10 stocks have the value less than 1 and the remaining has more than 1
- Only a few companies have outperformed the market they are INDIGO, MEP, POWER MECH & SHREEPUSHKAR.
- In this time we have 4 stock which has performed negatively they are INOX WIND, POWER MECH, SHREEPUSHKAR, SYNGENE respectively.

For the Ipo Issued in the Year 2016
One Year From The Issue
- The securities such as precession camshafts & team lease have negative return & risk. and all other securities have positive return & risk.
- In this IPO issue only one is greater than 1 that is precession camshafts and all the remaining stocks have less than the value of 1.
- The outperformance didn't go well because only one stock has positive and the other three have negative.
- "Teamlease has performed positively and the remaining performed poorly.

Two Years From The Issue
- The security "PRECISION CAMSHAFTS" has unconstructive return & risk. All other securities have optimistic return & risk.
- The stock "QUICK HEAL TECHNOLOGIES LTD" has the value less than one so the volatility of the stock ids less than the other present.
- All the stocks have the positive value which indicates that these companies have performed optimistically with respect to the market return.

From the analysis, the researcher suggests that investors must take strategic decisions afore investing in shares. The customary income-seeker-investors can utilize the beta values in fine-tuning and formulating to invest in portfolios. It is recommended that a felicitous estimation and analysis of beta can be reliably taken recourse to in understanding the peril involved and the return engendered from equity shares. Advertisement campaigns must be conducted

in rural areas to increment vigilance among rural investors, agent's commission to be incremented so that and it incentivize to meet the number of investors. Investors should perpetually monitor their portfolio by updating according to the market position so that returns can be maximized. The risk-return analysis can be utilized as a stable platform by the investors in establishing the tradeoff between portfolio risk and return. Any rational investor, afore investing his or her investible wealth in the stock, Should analyze the peril, associated with the particular stock. The authentic return receives from stock may vary from his expected return and jeopardize is expressed in terms of variability of return. Investors, in general, would relish analyzing the peril avails him to orchestrate his portfolio in such a manner so as to minimize the jeopardy

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